

What to expect from April's ECB meeting

The ECB is highly unlikely to do anything that could affect market expectations before the second round of the French election.



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Solid momentum continues

Confidence indicators have continued their optimism and some hard data have started to catch up. Since the March meeting, incoming data has done very little or nothing to change the ECB's stance on the economic outlook. In fact, signs of an improving and broadening recovery are increasing. Currently, the Eurozone recovery is no longer driven by a few member states but by almost all member states; at least on a cyclical perspective. Domestic demand has become an important growth driver and the weak euro exchange rate is supporting the export sector. Also, loan growth is finally showing tentative signs of a positive reaction to the ECB's ultra-loose monetary policy.

Beware of too much enthusiasm

Before getting too enthusiastic, not all is well in the Eurozone. Despite the cyclical upswing, unemployment rates (and above all youth unemployment rates) in many countries remain far too high to reduce social inequality, government debt ratios have hardly come down in most countries and further, and necessary, works on the structure of the monetary union have been put on hold. Particularly the latter remains of high importance, given the fact that the current (institutional)

set-up of the Eurozone will probably not be sufficient to tackle another severe economic crisis.

1.7% ING 2017 Eurozone CPI forecast

ECB remains in a difficult position

The ECB remains stuck between a solid economic recovery and a clearly diminished deflation risk on one side and a still (though since yesterday slightly less) fragile political environment and an incomplete set-up of the monetary union on the other side. Consequently, the ECB's road towards an exit from its ultra-loose monetary policy will remain winding and difficult.

No changes at this week's meeting

This week's ECB meeting is one most ECB members would probably prefer to skip if they could. The meeting comes at a time at which the ECB would rather say nothing than give markets any new information to speculate about. After the initial excitement about a possible tapering and a more hawkish ECB in the days following the March meeting, the ECB made a lot of effort to recapture market expectations. Even though we still expect the ECB to give its first signs of tapering at the June or July meeting, it looks extremely unlikely that the ECB wants to steer market expectations in between the first and second rounds of the French presidential elections. Therefore, this week's press conference could be extremely brief and differences with the March wording will be very hard to find.

Key phrases to watch

If we are wrong and the ECB decides to give some tapering hints, the key phrases in the ECB's introductory statement are "growth risks tilted to the downside" and policy rates expected "to remain at present or lower levels for an extended period of time, and well past the horizon of the net asset purchases." These are verbal screws the ECB will turn to signal any upcoming changes.

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